

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BFN3034 – BEHAVIOURAL FINANCE
(SECTION B01)

18 OCTOBER 2016
2.30 P.M. – 4.30 P.M.
(2 HOURS)

INSTRUCTIONS TO STUDENTS

1. This questions paper consists of 2 pages.
2. Answer **ALL** questions. The marks for each question are given in the question paper.
3. Please write your answers for all the questions in the answer booklet.

Answer ALL questions.

Question 1

- (a) Identify one behavioural characteristic that is most exhibited from statement (i) to (v) below.
- (i) People commonly assume that things that share certain qualities possess other shared characteristics, but these other characteristics are not necessarily shared. Experts in behavioural finance call this potential source of confusion. **(5 marks)**
 - (ii) Financial investors tend to be most reluctant to sell stock if its current price is significant less than the price at which they purchased it. **(5 marks)**
 - (iii) People being more likely to ask for a higher price for an asset that they already own than they would be willing to pay for the same asset if they did not own. **(5 marks)**
 - (iv) This effect is in play of the financial investors take greater risks after generating higher rates of return than expected. **(5 marks)**
 - (v) I am pleased with the returns from the Premier Berhad because I have specific uses for that money. For that reason, I certainly want my retirement fund to continue owning the Premier Berhad. **(5 marks)**
- (b) If you are the chief financial officer of a car company, explain how you apply endowments effects when customers need to bear some of the costs associated with the purchasing of a new car. **(10 marks)**

(Total: 35 marks)

Question 2

- (a) Explain the two players in Shleifer's model of noise trading. What are the implications for efficient markets? **(20 marks)**
- (b) Discuss how the disposition effect impacts market prices. **(10 marks)**

(Total: 30 marks)

Continued...

Question 3

- (a) You are required to analyse prospect theory and expected utility theory. Discuss the similarities and differences between these two theories. (15 marks)
- (b) Describe three types of heuristics. Then, explain how availability heuristics affect in investment decision making. (15 marks)
- (c) Explain the term trin statistics, a measure of investor sentiment. (5 marks)

(Total: 35 marks)

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